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1977

Annual Report

Canadian Cannery Limited

1977 Annual Report

Financial Highlights

(In Thousands of Dollars)

	<u>1977</u>	<u>1976</u>
Sales	\$ 115,729	\$ 113,009
Net earnings	1,385	3,012
Per dollar of sales	1.2¢	2.7¢
Per Class A and B common share .....	.99	2.14
Return on shareholders' equity	3.2%	7.3%
Retained earnings	37,791	36,406
Working capital	28,168	26,647
Working capital ratio	2.0	1.8
Shareholders' equity	44,088	42,703

To Our Shareholders and Employees

Sales and operating revenues for the year ended May 31, 1977 were \$115,729,000, an increase of 2.4% over the previous year's \$113,009,000. Net earnings were \$1,385,000 or 99¢ per share, compared with \$3,012,000 or \$2.14 per share for the prior year. The return per dollar of sales at 1.2¢ and the return on shareholders' equity at 3.2% compares with 2.7¢ and 7.3% respectively for the prior year.

The unsatisfactory economic conditions which existed in Canada during the past year and the strong competitive pressures in the market place from both domestic and imported products combined to depress earnings for the second successive year. Conditions in the market place did not permit reflecting the continuing production cost increases for domestic fruit and vegetable products.

During the past fiscal year, the Company undertook a cost reduction program which will be completed in fiscal 1978; the effects of this program will be realized in 1978 and subsequent years. The major portion of the cost of researching and installing this program occurred in the past year and reduced our net earnings for year ended May 31, 1977 by \$375,000.

The basic objective of the Company for the next three years is to improve the earning capacity and cash flow through asset management under a program of selective development and redeployment of our assets. Strategies which will be used to achieve this objective include the elimination of both low-volume and low-margin products, the reduction of inventory investment, a selective capital investment program providing significant economic return, and an aggressive productivity

improvement program. The achievement of this objective, which will result in an improved rate of return on the capital employed, should provide a sound financial base for future growth.

The shareholders will vote on a special resolution at the Annual Meeting on October 13 to amend the Articles of the Corporation so that the present Class B and Class A common shares will be exchanged for a new class of common shares on the basis of 1 new common share for 1 Class B common share and 0.6625 of 1 new common share for 1 Class A common share. The result of the share reclassification will be that all of the new common shares will rank equally and have the same rights and privileges and there will no longer be any rights to accruals of cumulative undeclared dividends as presently existing.

Following the Annual Meeting on October 7, 1976, Richard H. Ward, Group Vice President, Finance, of Del Monte Corporation was elected Chairman of the Board of Canadian Cannery Limited replacing Ross B. Yerby who retired as of that date.

To our employees, we express our sincere appreciation for their participation and efforts in working toward achieving the Company's objectives.

On behalf of the Board of Directors,

Richard H. Ward
Chairman

L. H. Johnston
President

Hamilton, Ontario,
August 31, 1977

Consolidated Balance Sheet

(In Thousands of Dollars)

	ASSETS	
	MAY 31	
	1977	1976
Current Assets:		
Cash	\$ 188	\$ 9
Accounts receivable	10,855	10,210
Inventories (Note 2)	43,232	46,716
Costs allocable to future operations	1,423	1,159
	<u>55,698</u>	<u>58,094</u>
Fixed Assets:		
Land	953	983
Buildings	10,396	10,847
Machinery and other equipment	25,571	25,473
	<u>36,920</u>	<u>37,303</u>
Less — Accumulated Depreciation	21,342	21,264
	<u>15,578</u>	<u>16,039</u>
Other Assets:		
Mortgages and deferred charges	998	560
Goodwill	3,243	3,243
	<u>4,241</u>	<u>3,803</u>
	<u>\$ 75,517</u>	<u>\$ 77,936</u>

Approved by the Board:

L. H. Johnston, Director
R. H. Ward, Director

CANADIAN CANNERS LIMITED AND SUBSIDIARY COMPANIES

LIABILITIES AND SHAREHOLDERS' EQUITY

	MAY 31	
	1977	1976
Current Liabilities:		
Bank advances and other short-term borrowings	\$ —	\$ 19,623
Accounts payable and accrued liabilities	9,544	8,991
Due to affiliated companies (Note 6)	17,338	2,631
Income and other taxes payable	552	106
Payments due within one year on long-term debt	96	96
	<u>27,530</u>	<u>31,447</u>
Other Liabilities:		
Long-term debt (exclusive of payments due within one year)	32	128
Deferred income taxes	3,867	3,658
	<u>3,899</u>	<u>3,786</u>
Shareholders' Equity:		
Capital stock (Note 3)		
Authorized —		
1,000,000 Class A common shares without nominal or par value		
2,000,000 Class B common shares without nominal or par value		
Issued —		
468,137 Class A common shares	2,099	2,099
936,274 Class B common shares	4,198	4,198
	<u>6,297</u>	<u>6,297</u>
Retained earnings	37,791	36,406
	<u>44,088</u>	<u>42,703</u>
	<u>\$ 75,517</u>	<u>\$ 77,936</u>

Consolidated Statement of Earnings and Retained Earnings

(In Thousands of Dollars)

	YEAR ENDED MAY 31	
	1977	1976
Sales and operating revenues	\$ 115,729	\$ 113,009
Costs and expenses:		
Cost of products sold and operating expenses	95,686	91,248
Selling, general and administrative expenses (Note 7)	15,729	14,591
Interest expense	2,084	2,233
	113,499	108,072
Earnings before income taxes	2,230	4,937
Provision for income taxes	845	1,925
Net earnings for the year	1,385	3,012
Retained earnings at beginning of year	36,406	33,394
Retained earnings at end of year	\$ 37,791	\$ 36,406
Net earnings per share (Class A and B common combined)	\$.99	\$ 2.14

Auditors' Report

To the Shareholders of
Canadian Canners Limited:

We have examined the consolidated balance sheet of Canadian Canners Limited and its subsidiary companies as at May 31, 1977 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at May 31, 1977 and the results of their operations and the changes in their financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Hamilton, June 30, 1977

PRICE WATERHOUSE & CO.,
Chartered Accountants.

CANADIAN CANNERS LIMITED AND SUBSIDIARY COMPANIES

Consolidated Statement of Changes in Financial Position

(In Thousands of Dollars)

	YEAR ENDED MAY 31	
	1977	1976
Financial resources were provided by:		
Operations —		
Net earnings	\$ 1,385	\$ 3,012
Charges not involving a current outlay of funds —		
Depreciation	1,493	1,617
Deferred income taxes	209	250
	<u>3,087</u>	<u>4,879</u>
Proceeds from disposal of fixed assets	257	192
	<u>3,344</u>	<u>5,071</u>
Financial resources were used for:		
Investment in fixed assets	1,289	3,499
Increase (decrease) in mortgages receivable	438	(23)
Reduction of long-term debt	96	96
	<u>1,823</u>	<u>3,572</u>
Increase in working capital	1,521	1,499
Working capital at beginning of year	26,647	25,148
Working capital at end of year	<u>\$ 28,168</u>	<u>\$ 26,647</u>
Analysis of changes in working capital:		
Increase (decrease) in current assets —		
Cash	\$ 179	\$ (50)
Accounts receivable	645	683
Inventories	(3,484)	1,699
Costs allocable to future operations	264	(31)
	<u>(2,396)</u>	<u>2,301</u>
Increase (decrease) in current liabilities —		
Bank advances and other short-term borrowings	(19,623)	1,954
Accounts payable and accrued liabilities	553	(873)
Due to affiliated companies	14,707	1,090
Income and other taxes payable	446	(1,355)
Payments due within one year on long-term debt	—	(14)
	<u>(3,917)</u>	<u>802</u>
Increase in working capital	<u>\$ 1,521</u>	<u>\$ 1,499</u>

Notes to Consolidated Financial Statements

MAY 31, 1977

1. Summary of Accounting Policies:

The significant accounting practices and policies employed in the preparation of the consolidated financial statements of Canadian Canners Limited and its subsidiaries are summarized below.

a.) Consolidation —

The consolidated financial statements include the accounts of the Company and its subsidiary companies all of which are wholly-owned:

Aylmer Foods Warehousing Limited
Boese Foods Limited
Canners Machinery Limited
Duncan Lithographing Company (Limited)
The Pyramid Canners Limited
St. Williams Preservers Limited
Wagstaffe Limited
Walmer Transport Company Limited

b.) Inventories —

Inventories are stated at the lower of cost and net realizable value, primarily using the average method to determine cost.

c.) Costs allocable to future operations —

Prepayment of insurance, rents, taxes and other expenses clearly related to future periods are considered costs allocable to future operations and are not charged against current earnings. In addition, the Company defers certain expenditures on growing crops that directly relate to future years' packing seasons.

d.) Fixed assets —

Fixed assets are stated at cost.

Depreciation is provided at rates designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings — 2½% annually on a straight-line basis

Machinery and equipment — 6% annually on a straight-line basis

Automotive equipment — 30% annually on a declining balance basis

The cost of fixed assets retired or otherwise disposed of, and accumulated depreciation thereon, are removed from the accounts and any resulting gain or loss is included in earnings for the year.

Expenditures for maintenance and repairs are charged to earnings when they are incurred, and renewals and betterments are capitalized.

e.) Goodwill —

Goodwill which arose prior to April 1, 1974 has not been amortized and will be retained as an asset indefinitely unless a reduction in its value becomes evident. Goodwill arising subsequent to this date, if any, will be amortized to income over its estimated life, not exceeding forty years.

f.) Deferred income taxes —

Deferred income taxes result principally from the difference between depreciation methods used for financial reporting purposes and depreciation methods allowable in determining taxable income.

g.) Other significant policies —

Research and development cost, development of new products, advertising and sales expenses are charged against income as incurred.

2. Inventories:

At May 31, inventories comprise:

	1977	1976
	(In Thousands of	Dollars)
Merchandise	\$28,456	\$30,039
Materials & Supplies	14,776	16,677
	<u>\$43,232</u>	<u>\$46,716</u>

CANADIAN CANNERS LIMITED AND SUBSIDIARY COMPANIES

3. Arrears in Dividends:

Class A Common Shares —

The holders of Class A common shares are entitled to cumulative cash dividends at the rate of 75¢ per share per annum in priority to any dividends on the Class B shares. To June 30, 1977 the dividends in arrears which have accumulated in varying amounts annually since September 30, 1968, aggregate \$1,697,000.

Class B Common Shares —

Subject to the prior rights of the Class A common shares, the holders of Class B common shares are entitled to cash dividends accumulating from the date of issue on October 1, 1956 at the rate of 75¢ per share per annum. To June 30, 1977 the dividends in arrears which have accumulated since October 1, 1956, aggregate \$14,571,000.

After the Class A and B common shares have received payment of all accumulated dividends, Class A and B common shares share equally in any dividends in excess of 75¢ per share per annum.

4. Pension Plans:

Based on the most recent actuarial evaluation, the unfunded liability of the pension plans amounts to approximately \$150,000 which will be amortized by annual payments over a period not exceeding twelve years.

5. Long-term Leases:

At May 31, 1977, the Company had long-term leases expiring in various years through 1995 covering land, buildings and equipment. The average annual rentals payable under these agreements are estimated at \$750,000 for the year ended May 31, 1978, \$585,000 for 1979-81 and \$161,000 for 1982-95.

6. Due to affiliated companies:

Amount due to affiliated companies includes notes payable to the parent company in the amount of \$14,730,000. The notes bear interest at 6% per annum and are repayable on July 12, 1977.

7. Cost Reduction Program:

The Company has undertaken a cost reduction study which will be completed in fiscal 1978. The full impact of the study will not be achieved until 1978 and subsequent years. During the fiscal year ended May 31, 1977 the program is estimated to have reduced net earnings by \$375,000 after taking into account the cost reductions resulting from the study.

8. Canada Business Corporations Act:

The Company filed articles of continuance in accordance with section 181 of the Canada Business Corporations Act and obtained a certificate of continuance dated May 18, 1977.

9. Anti-Inflation Program:

The Company and its subsidiaries are subject to controls on prices, profits, dividends and compensation instituted by the Federal Government in the Anti-Inflation Act effective October 14, 1975. The Company believes it has complied with the guidelines since their announcement.

CANADIAN CANNERS LIMITED AND SUBSIDIARY COMPANIES

Ten Year Review of Financial Data

Figures in thousands except per share

	Twelve Months Ended May 31								Fifteen Months Ended May 31	Twelve Months Ended February 29
	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968
FOR THE YEAR										
Sales	\$115,729	113,009	106,737	85,348	73,197	64,078	58,582	54,663	68,028	53,677
Earnings from operations	1,385	3,012	4,434	2,808	2,232	1,263	809	692	754	1,175
Per dollar of sales	1.2c	2.7c	4.2c	3.3c	3.0c	2.0c	1.4c	1.3c	1.1c	2.2c
Per Class A and B common share .....	.99	2.14	3.16	2.00	1.59	.90	.58	.49	.54	.84
Net extraordinary gains	—	—	—	—	—	—	—	1,011	301	—
Net earnings	1,385	3,012	4,434	2,808	2,232	1,263	809	1,703	1,055	1,175
Per Class A and B common share .....	.99	2.14	3.16	2.00	1.59	.90	.58	1.21	.75	.84
Return on shareholders' equity	3.2%	7.3%	11.8%	8.2%	7.0%	4.2%	2.7%	6.0%	3.6%	4.4%
Cash dividends paid	—	—	263	269	187	187	187	187	357	351
Per Class A common share	—	—	.56 1/4	.57 1/2	.40	.40	.40	.40	.76 1/4	.75
Capital expenditures	1,289	3,499	2,858	1,625	1,285	1,224	1,342	1,331	1,452	915
Provision for depreciation	1,493	1,617	1,518	1,373	1,329	1,331	1,262	1,240	1,535	1,219
AT YEAR END										
Working capital	28,168	26,647	25,148	21,568	18,299	17,055	16,907	17,429	17,778	18,079
Working capital ratio	2.0	1.8	1.8	2.3	2.0	2.0	2.2	2.5	2.2	2.2
Net fixed assets	15,578	16,039	14,349	13,503	13,365	13,496	13,673	12,761	13,198	13,550
Long-term debt	32	128	224	183	266	1,549	2,634	2,694	3,144	5,319
Retained earnings	37,791	36,406	33,394	29,136	26,638	24,593	23,517	22,895	21,426	20,728
Shareholders' equity	44,088	42,703	39,691	35,433	32,935	30,890	29,814	29,192	27,723	27,025

CANADIAN CANNERS LIMITED AND SUBSIDIARY COMPANIES

DIRECTORS

A. W. Eames, Jr.	San Francisco, California
R. F. Fly	San Francisco, California
V. C. German	Toronto, Ontario
L. H. Johnston, F.C.A.	Hamilton, Ontario
R. G. Landis	San Francisco, California
W. G. Lister	Hamilton, Ontario
C. S. MacNaughton	Toronto, Ontario
F. H. McNeil	Montreal, Quebec
A. L. Nelson	Hamilton, Ontario
J. P. W. Ostiguy	Montreal, Quebec
W. S. Sewell, Q.C.	Toronto, Ontario
R. H. Ward	San Francisco, California

OFFICERS

R. H. Ward	Chairman of the Board
L. H. Johnston	President and Chief Executive Officer
G. B. Culbert	Director of Marketing
R. Fox	Vice-President — Corporate Development
W. G. Lister	Vice-President — Treasurer and Controller
A. L. Nelson	Vice-President — Production
D. W. Munn	Secretary
C. A. Barnes	Assistant Secretary
M. R. Huffman	Assistant Treasurer and Assistant Secretary
J. R. Michener	Assistant Controller
F. D. Ouellette	Assistant Controller

HEAD OFFICE

44 Hughson Street South, Hamilton, Ontario L8N 3K6

SUBSIDIARY COMPANIES

Aylmer Foods Warehousing Limited
Boese Foods Limited
Canners Machinery Limited
Duncan Lithographing Company (Limited)
The Pyramid Canners Limited
St. Williams Preservers Limited
Wagstaffe Limited
Walmer Transport Company Limited

REGISTRAR AND TRANSFER AGENTS

Royal Trust Company, Toronto and Montreal

AUDITORS

Price Waterhouse & Co.

ANNUAL MEETING

October 13, 1977, Toronto, Ontario

